

LAKEVIEW DISTRICT FIRE DEPARTMENT

59-7506

MONTCALM COUNTY, MICHIGAN

RECEIVED
DEPT. OF TREASURY
J
AUG 26 2004
8/25
AUDIT REPORT
FEBRUARY 29, 2004

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended.

Local Government Type <input type="checkbox"/> City <input type="checkbox"/> Township <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other		Local Government Name LAKEVIEW DISTRICT FIRE DEPT	County MONTCALM
Audit Date 2-29-2004	Opinion Date 8-16-2004	Date Accountant Report Submitted to State: 8-26-2004	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

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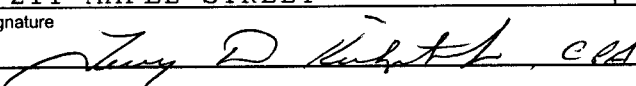
LOCAL AUDIT & FINANCE DIV.

You must check the applicable box for each item below.

- ☐ Yes ☒ No 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements.
- ☐ Yes ☒ No 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980).
- ☐ Yes ☒ No 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended).
- ☐ Yes ☒ No 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act.
- ☐ Yes ☒ No 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]).
- ☐ Yes ☒ No 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit.
- ☐ Yes ☒ No 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year).
- ☐ Yes ☒ No 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241).
- ☐ Yes ☒ No 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95).

We have enclosed the following:

	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.	X		
Reports on individual federal financial assistance programs (program audits).			X
Single Audit Reports (ASLGU).			X

Certified Public Accountant (Firm Name) TERRY KIRKPATRICK, CPA, PC			
Street Address 211 MAPLE STREET	City BIG RAPIDS	State MI	ZIP 3 49307
Accountant Signature 			Date 8-23-04

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TERRY KIRKPATRICK, CPA, P.C.

CERTIFIED PUBLIC ACCOUNTANT

211 MAPLE STREET
P O BOX 817
BIG RAPIDS, MICHIGAN 49307-0817
(231) 796-3332
FAX (231) 796-5554

Independent Auditor's Report

August 16, 2004

To the Honorable Chairman and Members of the Fire Board of
the Lakeview District Fire Department, Montcalm County, Michigan:

We have audited the general purpose financial statements of the Lakeview District Fire Department, Montcalm County, Michigan, a jointly-owned fire department pursuant to PA 7 of 1967, known as the Urban Cooperation Act, for the year ended February 29, 2004. These general purpose financial statements are the responsibility of management. Our responsibility is to express an opinion on these general purpose financial statements based on our audit.

Except as discussed in the following paragraph, we conducted our audit in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the general purpose financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the general purpose financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall general purpose financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

We were unable to physically inspect cancelled checks because the Lakeview District Fire Department banks with an institution that does not return the original checks with the monthly bank statement, and we were unable to verify the beginning fund balance.

In our opinion, except for the effects of any adjustments, if any, as might have been determined to be necessary had we been able to inspect and verify information on cancelled checks and verify beginning fund balance, the general purpose financial statements referred to above present fairly, in all material respects, the financial position of the Lakeview District Fire Department as of February 29, 2004, and the results of its operations for the year then ended in conformity with generally accepted accounting principles.

Terry Kirkpatrick, CPA, P.C.

Lakeview District Fire Department – Montcalm County, Michigan
Combined Statement of Revenues, Expenditures and Changes in Fund Balance – Budget and Actual –
All Governmental Fund Types
For the Year Ended February 29, 2004

	<u>Governmental Fund</u>	<u>Account Group</u>	<u>Totals</u>
	<u>General</u>	<u>General</u>	<u>(Memorandum</u>
	<u>Fund</u>	<u>Fixed Asset</u>	<u>Only)</u>
ASSETS			
Cash in Bank	\$ 122,861	\$ 0	\$ 122,861
Vehicles	0	290,168	290,168
Equipment	0	44,863	44,863
Buildings	0	10,389	10,389
Total assets	<u>\$ 122,861</u>	<u>\$ 345,420</u>	<u>\$ 468,281</u>
LIABILITIES AND FUND EQUITY			
Payroll Taxes Payable	\$ 612	\$ 0	\$ 612
Deferred Revenue	32,352	0	32,352
Fund Balance	89,897	0	89,897
Investment in General Fixed Assets	0	345,420	345,420
Total liabilities and fund equity	<u>\$ 122,861</u>	<u>\$ 345,420</u>	<u>\$ 468,281</u>

The "Notes to Financial Statements" are an integral part of these statements.

Lakeview District Fire Department – Montcalm County, Michigan
Combined Statement of Revenues, Expenditures and Changes in Fund Balance – Budget and Actual –
All Governmental Fund Types
For the Year Ended February 29, 2004

	<u>General Fund</u>		Variance
	<u>Budget</u>	<u>Actual</u>	<u>Favorable</u> <u>(Unfavorable)</u>
REVENUES			
Contributions from Local Units			
Cato Township	\$ 46,220	\$ 46,220	\$ 0
Hinton Township	17,344	17,344	0
Pine Township	30,036	30,036	0
Federal Grants - FEMA	45,934	45,934	0
Charges for Services			
Fire runs	4,000	10,895	6,895
Interest and Rents			
Interest income	0	3,178	3,178
Total revenues	<u>143,534</u>	<u>153,607</u>	<u>10,073</u>
EXPENDITURES			
Public Safety			
Fire protection			
Salaries and wages - firemen	15,000	17,888	(2,888)
Salaries and wages - chief & asst.	4,000	4,000	0
Per diems - board of directors	4,800	2,400	2,400
FICA/Medicare tax	3,000	1,674	1,326
Operating supplies	125	68	57
Uniforms and gear	3,500	4,508	(1,008)
Equipment replacement	0	4,599	(4,599)
Contracted services	3,500	3,500	0
Legal and professional	1,000	1,282	(282)
Conferences and training	9,500	5,930	3,570
Employee & volunteer programs	1,500	0	1,500
Gas and oil	800	1,219	(419)
Insurance and bond	11,000	8,955	2,045
Postage	150	159	(9)
Utilities	4,000	4,610	(610)
Repairs and maintenance	10,000	9,082	918
FEMA Grant expense	33,564	33,564	0
Miscellaneous expense	2,700	3,070	(370)
Interest expense	4,000	3,698	302
Total expenditures	<u>112,139</u>	<u>110,206</u>	<u>1,933</u>

Lakeview District Fire Department – Montcalm County, Michigan
Combined Statement of Revenues, Expenditures and Changes in Fund Balance – Budget and Actual –
All Governmental Fund Types – Continued
For the Year Ended February 29, 2004

	<u>General Fund</u>		Variance
	<u>Budget</u>	<u>Actual</u>	<u>Favorable</u> <u>(Unfavorable)</u>
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	31,395	43,401	12,006
OTHER FINANCING SOURCES (USES)			
Principal Payment	(19,000)	(17,270)	1,730
EXCESS OF REVENUES AND OTHER FINANCING SOURCES OVER (UNDER) EXPENDITURES AND OTHER USES	12,395	26,131	13,736
FUND BALANCE - March 1, 2003	63,766	63,766	0
FUND BALANCE - February 29, 2004	<u>\$ 76,161</u>	<u>\$ 89,897</u>	<u>\$ 13,736</u>

The "Notes to Financial Statements" are an integral part of these statements.

NOTES TO FINANCIAL STATEMENTS

Lakeview District Fire Department – Montcalm County, Michigan

Notes to Financial Statements

For the Year Ended February 29, 2004

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity

In accordance with generally accepted accounting principles and Governmental Accounting Standards Board (GASB) Statement No. 14 “The Financial Reporting Entity”, these financial statements present Lakeview District Fire Department. The criteria established by the GASB for determining the reporting entity includes oversight responsibility, fiscal dependency, and whether the financial statements would be misleading if data were not included.

A Joint Fire Authority Agreement was entered into 3/1/92 between Cato, Hinton and Pine Townships pursuant to authority granted the Townships under PA 33 of 1951, Section 6, PA 365 of 1982, PA 102 of 1990 and PA 7 of 1967 (known as Urban Cooperation Act of 1967).

The Administrative Board of the Lakeview District Fire Department consists of six members with each of the Township Boards appointing two Township residents. One member of each Township is an elected Township Board member and one member appointed at large.

Basis of Presentation

The accounts of the Lakeview District Fire Department are organized and operated on the basis of funds and account groups. A fund is an independent fiscal and accounting entity with a self-balancing set of accounts. Fund accounting segregates funds according to their intended purpose and is used to aid management in demonstrating compliance with finance-related legal and contractual provisions. The minimum number of funds are maintained consistent with legal and managerial requirements. Account groups are a reporting device to account for certain assets and liabilities of the governmental funds not recorded in those funds.

The financial activities of Lakeview District Fire Department are recorded in separate funds and account groups categorized as follows:

GOVERNMENTAL FUNDS

General Fund

This fund is used to account for all financial resources except those provided for in another fund. Revenues are primarily derived from property taxes, State and Federal aid, and charges for services to provide for the administration and operation of: (1) general local governmental departments and boards and commissions, (2) court systems, (3) law enforcement and (4) health, welfare and medical assistance. The fund includes the general operating expenditures of the Fire District.

ACCOUNT GROUPS

General Fixed Assets Account Group

This Account Group presents the fixed assets of the Lakeview District Fire Department utilized in its general operations (nonproprietary fixed assets).

Fixed assets used in the general operation of the Lakeview District Fire Department are recorded as expenditures when purchased and are accounted for in the General Fixed Assets Account Group. No depreciation is recorded for these general fixed assets. Infrastructure assets, including roads, bridges, sanitary sewers, drains, curbs, and gutters are not capitalized.

Lakeview District Fire Department – Montcalm County, Michigan
Notes to Financial Statements - Continued
For the Year Ended February 29, 2004

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued

Basis of Accounting

The accrual basis of accounting is used by the Proprietary Funds, Pension Trust Funds, and Nonexpendable Trust Funds. The modified-accrual basis of accounting is used by all Governmental Funds, Agency Funds and Expendable Trust Funds. Revenue and other sources are recognized in the accounting period in which they become susceptible to accrual – that is when they become both measurable and available to finance expenditures of the fiscal period. Expenditures are recognized when the related liability is incurred. Modifications from the accrual basis are as follows:

- a. The Lakeview District Fire Department shall have no authority to levy any tax within the boundaries of the Fire District.
- b. Interest income on special assessments receivable is not accrued until its due date.
- c. The Lakeview District Fire Department shall not issue any type of bond in its own name, or in any way indebted the township members.
- d. Payments for inventoriable types of supplies are recorded as expenditures at the time of purchase.
- e. Normally, expenditures are not divided between years by the recording of prepaid expenses.

Budgetary Data

The Lakeview District Fire Department follows these procedures in establishing the budgetary data reflected in the financial statements:

1. At least four months prior to February 28, the Fire Board compiles a proposed operating and equipment budget for the next fiscal year. The Fire Board submits the total proposed budget to the Township Boards at least two months prior to February 28 for their approval.
2. The Treasurer, or his designee, is authorized to transfer budgeted amounts within departmental appropriation accounts; however, any revisions in excess of the approved budget must be approved by the Townships.
3. Budget appropriations lapse at year-end except for approved contracts and certain federal grants, which are appropriated on a contract (grant) or entitlement-length basis.

Total Columns on Combined Statements – Overview

Total columns on the general purpose financial statements are captioned “Memorandum Only” to indicate that they are presented only to facilitate financial analysis. Data in these columns does not present financial position, results of operations, or changes in financial position in conformity with generally accepted accounting principles. Neither is such data comparable to a consolidation. Interfund eliminations have not been made in the aggregation of this data.

Lakeview District Fire Department – Montcalm County, Michigan
Notes to Financial Statements - Continued
For the Year Ended February 29, 2004

NOTE B – DETAIL NOTES ON ALL FUNDS AND ACCOUNT GROUPS

Assets and Liabilities

1. Changes in General Fixed Assets

	Balance 3/1/2003	Additions	Deletions	Balance 2/29/2004
Vehicles	\$ 290,168	\$ 0	\$ 0	\$ 290,168
Equipment	44,863	0	0	44,863
Building	10,389	0	0	10,389
	<u>\$ 345,420</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 345,420</u>

NOTE C – BALANCE SHEET – CASH AND INVESTMENTS

Deposits are carried at cost. Deposits are in two financial institutions in the name of Lakeview District Fire Department. Michigan Compiled Laws, Section 129.91, authorizes Lakeview District Fire Department to deposit and invest in the accounts of Federally insured banks, credit unions, and savings and loan associations. Investments can also be made in bonds, securities and other obligations of the United States, or an agency or instrumentality of the United States, which are guaranteed as to principal and interest by the United States, including securities issued by the Government National Mortgage Association; United States government or federal agency obligation repurchase agreements; bankers' acceptance of United States banks; commercial paper rated with the two highest classifications by not less than two standard rating services which mature not more than 270 days after the date of purchase. Michigan law prohibits security in the form of collateral, surety bonds, or other forms for the deposit of public money. Attorney General's Opinion No. 6168 states that public funds may not be deposited in financial institutions located in states other than Michigan, unless the out-of-state bank has a branch located in Michigan. The Lakeview District Fire Department deposits are in accordance with statutory authority.

The Governmental Accounting Standards Board (GASB) Statement No. 3 risk disclosure for deposits at year-end are as follows:

	<u>Bank Balance</u>
	<u>Deposits</u>
Insured (FDIC)	\$ 129,834
Uninsured	0
	<u>\$ 129,834</u>

At year-end, the balance sheet carrying amount of deposits was \$122,861.

NOTE D – RISK FINANCING

Lakeview District Fire Department is exposed to various risks of loss related to theft of, damage to, and the destruction of assets; errors and omissions; injuries to employees; liability; and natural disasters. These risks are covered by insurance purchased from independent third parties. Settled claims for these risks have not exceeded insurance coverage for the past two years.

Lakeview District Fire Department – Montcalm County, Michigan

Notes to Financial Statements - Continued

For the Year Ended February 29, 2004

NOTE E – FIRE PUMPER LEASE FINANCING

In January 2000, the Lakeview District Fire Department purchased a new fire pumper at a total cost of \$206,530. The District paid \$100,000 down, and the remainder was made a part of a lease financing arrangement with six equal annual payments of \$20,968.14 commencing in January 2003. The payment schedule follows:

<u>Payment Year</u>	<u>Interest Rate</u>	<u>Total Payment</u>	<u>Interest</u>	<u>Principal</u>
2004	4.97%	\$ 20,968.14	\$ 2,839.54	\$ 18,128.60
2005		20,968.14	1,938.55	19,029.59
2006		20,968.14	992.78	19,975.36
		<u>\$ 62,904.42</u>	<u>\$ 5,770.87</u>	<u>\$ 57,133.55</u>

NOTE F – DEFERRED REVENUE

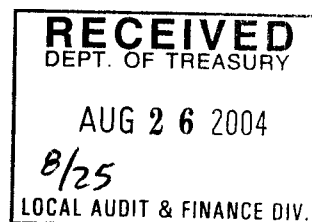
The participating Townships paid a part of the next years contract to the Fire Department prior to the end of this fiscal year. Therefore, \$32,352 is shown as a deferred revenue to be recognized next year.

TERRY KIRKPATRICK, CPA, P.C.
CERTIFIED PUBLIC ACCOUNTANT

211 MAPLE STREET
P O BOX 817
BIG RAPIDS, MICHIGAN 49307-0817
(231) 796-3332
FAX (231) 796-5554

August 16, 2004

Members of the Board
Lakeview District Fire Department
Lakeview, MI 48850



I recently completed my audit of the general-purpose financial statements of the Lakeview District Fire Department for the year ended February 29, 2004. During the audit, I had an opportunity to test internal controls and to observe the accounting and financial procedures and many of the general management practices of the Fire District. Based upon these tests and observations, there are several matters that I specifically want to call to your attention.

LACK OF RETURN OF CANCELLED CHECKS AN INTERNAL CONTROL PROBLEM

The Fire District should remember the fact that cancelled checks not being returned with the monthly bank statement creates a very significant weakness in internal control. It eliminates the ability to know "positively" to whom each check was written. The District should strongly consider implementing a policy whereby all checks would be returned by the banking institution, or at the very minimum, request that a picture of the check be provided by the banking institution.

In my opinion, it is unacceptable for a public entity to utilize bank accounts that do not return cancelled checks or at least a photocopy of them. Public funds are placed at a much greater risk for no good reason.

SEPARATE BANK ACCOUNTS FOR EACH FEDERAL GRANT

For all future federal grants that the Lakeview District Fire Department receives, I strongly suggest that these receipts and disbursements be maintained in a bank account separate from all other fire department activity. It makes it too difficult to track these funds if they are commingled with other Fire Department funds.

DEPOSITS TO SAVINGS OR CHECKING - BUT NOT BOTH

Each of the credit union accounts contain what appears to be a savings account and a checking account. There were times when receipts were deposited partially in the checking account and partially into the savings account. If the Fire Department is going to maintain both types of account, then all receipts should be deposited directly to the savings account. The only deposits to the checking account would then be the result of a transfer from the savings account. This method makes it much easier to follow the audit trail.

OTHER MATTERS

I have enjoyed working with your staff. Their competence and assistance were instrumental in my timely completion of the audit.

Two copies of the audit report, the auditing procedures report, and this letter should be mailed to the Michigan Department of Treasury, Local Audit Division. A pre-addressed envelope is being provided for your convenience.

If you have any questions regarding this letter or the audit, please do not hesitate to contact me.

Jerry Kiehl, CPA, P.C.